

**DEPARTMENT OF MENTAL HEALTH,
RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
REPORT ON CONTRACT COMPLIANCE
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001**

**DEPARTMENT OF ADMINISTRATION
BUREAU OF AUDITS
ONE CAPITOL HILL
PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUREAU OF AUDITS
One Capitol Hill
Providence, R.I. 02908-5889
TEL #: (401) 222-2768
FAX #: (401) 222-3973

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
REPORT ON CONTRACT COMPLIANCE
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

EXECUTIVE SUMMARY

Based on our contract compliance engagement for the fiscal years ended June 30, 2002 and 2001 we determined the following:

Resident group home rent computations as well as the Social Security's Representative Payee program are administered by group home staff. This has resulted in errors in rent computations and inefficiencies in the bookkeeping of resident supplemental security income (SSI) checks.

The Department of Mental Health, Retardation and Hospitals (MHRH) should request that Kent County Mental Health Center, Inc. (Center) fiscal staff monitor the resident group home rent computations to ensure accurate payments. Further, MHRH should request that the Center transfer the operations of the Representative Payee program from their group home staff to their fiscal staff.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
TRANSMITTAL LETTER	1
SCOPE AND PURPOSE	2
BACKGROUND	3
AUDITOR'S OPINION	4
FINANCIAL INFORMATION:	
Statement of Revenues and Expenses	
Exhibit A: Fiscal Year Ended June 30, 2002	6
Exhibit B: Fiscal Year Ended June 30, 2001	7
Exhibit C: Statement of Operations – Title XIX Program	8
Exhibit D: Determination of Over (Under) Payment of State Matching Funds	9
Notes to Financial Information	10
SUPPLEMENTAL INFORMATION:	
Schedule of Matchable and NonMatchable Revenues	11
FINDINGS AND RECOMMENDATIONS	12



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUREAU OF AUDITS
One Capitol Hill
Providence, R.I. 02908-5889
TEL #: (401) 222-2768
FAX #: (401) 222-3973

December 3, 2003

Ms. Jane A. Hayward, Interim Director
Department of Mental Health, Retardation and Hospitals
Barry Hall - 1
14 Harrington Road
Cranston, RI 02920-3080

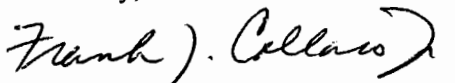
Dear Ms. Hayward:

We have completed an examination of the contracts between the Department of Mental Health, Retardation and Hospitals (MHRH) and Kent County Mental Health Center, Inc., for the fiscal years ended June 30, 2002 and 2001.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Section 35-7-4 of the General Laws requires the director of the department audited to respond in writing within sixty days to all recommendations made by the Bureau of Audits. A copy of your reply should also be sent directly to Robert J. Higgins, Director, Department of Administration and to Representative Paul V. Sherlock, Chairman of the House Finance Committee and to Senator Stephen D. Alves, Chairman of the Senate Finance Committee.

We wish to express our appreciation to the officials of the Department of MHRH and to the Director and staff members of the Center for their assistance, cooperation and courtesies extended to us during the course of this examination.

Sincerely,


Frank J. Collaro, Jr., CFE, CGFM
Acting Chief, Bureau of Audits

FJC:pp

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

SCOPE AND PURPOSE

The purpose of this examination was to determine compliance with your department's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers to the Matching Grant Contracts and with the terms and conditions contained within the Community Support, Residential and Acute Alternative Services Contracts as to:

- whether revenues were matchable or nonmatchable;
- total matchable revenue used as the basis for funding fiscal years 2004 and 2003;
- whether reported expenses were allowable and properly allocated;
- whether reported revenues were accurate; and
- any over or under funding on behalf of the Department of Mental Health, Retardation and Hospitals.

Our audit of the financial records included verification of revenues and expenses through testing procedures to the extent we deemed necessary in the circumstances. Occupancy requirements and resident contributions were examined for adherence to contract specifications. Client fund management was reviewed for conformance with applicable policies and guidelines.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

BACKGROUND

Section 40.1-8.5-6 of the General Laws of the State of Rhode Island authorizes the Director of the Department of Mental Health, Retardation and Hospitals (MHRH) to make grants to community mental health centers to provide mentally disabled adults services which shall include but not be limited to psychiatric, medical, nursing, psychological, social, rehabilitative and support services provided in the prevention, diagnosis, treatment and follow-up of mental disabilities, and in addition, may include those services designed to prevent mental disabilities or be of a consultative, informational or educational nature about mental disabilities. It is under this authorization that Kent County Mental Health Center, Inc., operates.

It is the intent of the law that an individual's eligibility to receive any public or private assistance be exhausted prior to the expenditure of state and local monies.

The Center's Administrative Offices are located at 300 Centerville Road Suite-301S, Warwick, Rhode Island.

On June 15, 1990, the Center purchased a building on leased land. This property is located at 863 Sandy Lane, Warwick, Rhode Island; and houses three adult clients in the Center's Residential Program.

A Board of Directors consisting of not more than 15 nor less than 12 individuals elected annually governs the Center.



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
BUREAU OF AUDITS
One Capitol Hill
Providence, R.I. 02908-5889
TEL #: (401) 222-2768
FAX #: (401) 222-3973

Ms. Jane A. Hayward, Interim Director
Department of Mental Health, Retardation and Hospitals
Barry Hall - 1
14 Harrington Road
Cranston, RI 02920-3080

Dear Ms. Hayward:

We have performed the procedures enumerated below, which were agreed to by the Department of Mental Health, Retardation and Hospitals (MHRH) and Kent County Mental Health Center, Inc. (Center), solely to assist the users in evaluating management's assertion about the Center's compliance with the Division of Behavioral Healthcare Service's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers to the Matching Grant contracts and with the financial terms and conditions contained within the Community Support Residential and Acute Alternatives Services contracts during the fiscal years ended June 30, 2002 and 2001, included in the accompanying Report on Contract Compliance. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

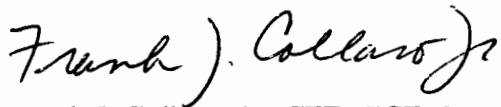
For purposes of this engagement we tested compliance with the above-mentioned specified requirements for determining matchable revenues, allowable costs, accuracy of reported activities and any excess funding on behalf of MHRH. Based on the application of the procedures referred to above, we became aware of unsatisfactory management of Representative Payee funds and an overpayment of rent incurred by a group home resident during the period audited. These matters are discussed in the accompanying "Findings and Recommendations" section of this report.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Ms. Jane A. Hayward, Interim Director
Page 2

This report is intended solely for the use of MHRH and the Center and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink that reads "Frank J. Collaro Jr." in a cursive script.

Frank J. Collaro, Jr., CFE, CGFM
Acting Chief, Bureau of Audits
June 11, 2003

FJC:pp

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
 KENT COUNTY MENTAL HEALTH CENTER, INC.
 STATEMENT OF REVENUES AND EXPENSES
 FISCAL YEAR ENDED JUNE 30, 2002

	<u>Community Support, Residential and Acute Alternatives</u>	<u>Adult General Outpatient</u>	<u>Other Programs</u>	<u>Total</u>
<u>Revenues</u>				
MHRH	\$ 723,284	227,173	-	950,457
MHRH-Criminal Justice	75,000	-	-	75,000
DCYF	-	-	721,636	721,636
Other Grants & Contracts	15,215	312,588	297,823	625,626
Title XIX Medicaid	5,520,744	333,686	1,495,676	7,350,106
Municipalities	-	77,522	32,100	109,622
Fund Raising & Contributions	8,353	75	-	8,428
Patient Fees	9,174	75,217	821	85,212
Resident Fees	81,492	-	-	81,492
Briggs School Fees	-	-	1,396,000	1,396,000
Third Party Reimbursements	99,037	359,977	100,381	559,395
Miscellaneous	9,378	1,100	5,260	15,738
Total Revenues	\$ 6,541,677	1,387,338	4,049,697	11,978,712
<u>Expenses</u>				
Personnel	5,623,258	1,355,345	2,665,552	9,644,155
Operating	1,072,076	299,110	847,229	2,218,415
Purchased Equipment	114,475	41,453	79,362	235,290
Investment Loss (See Note 5)	-	24,093	-	24,093
Total Expenses	\$ 6,809,809	1,720,001	3,592,143	12,121,953
Excess (Deficiency) of Revenues Over Expenses	\$ (268,132)	(332,663)	457,554	(143,241)

See accompanying notes to financial information.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
 KENT COUNTY MENTAL HEALTH CENTER, INC.
 STATEMENT OF REVENUES AND EXPENSES
 FISCAL YEAR ENDED JUNE 30, 2001

	Community Support, Residential and Acute Alternatives	Adult General Outpatient	Other Programs	Total
<u>Revenues</u>				
MHRH	\$ 938,491	126,895	-	1,065,386
MHRH-Criminal Justice	75,000	-	-	75,000
DCYF	-	-	639,547	639,547
Other Grants & Contracts	14,878	268,654	90,809	374,341
Title XIX Medicaid	4,592,667	208,405	1,166,399	5,967,471
Municipalities	-	83,160	28,555	111,715
Fund Raising & Contributions	1,815	-	-	1,815
Third Party Reimbursements	116,814	208,567	114,076	439,457
Patient Fees	10,765	57,816	1,391	69,972
Briggs School Fees	-	-	1,282,742	1,282,742
Resident Fees	77,787	-	-	77,787
Miscellaneous	135	360	10	505
Total Revenues	\$ 5,828,352	953,857	3,323,529	10,105,738
<u>Expenses</u>				
Personnel	5,040,466	1,087,397	2,336,759	8,464,622
Operating	911,476	170,935	602,961	1,685,372
Purchased Equipment	102,107	25,586	101,822	229,515
Total Expenses	\$ 6,054,049	1,283,918	3,041,542	10,379,509
Excess (Deficiency) of Revenues Over Expenses	\$ (225,697)	(330,061)	281,987	(273,771)

See accompanying notes to financial information.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
 KENT COUNTY MENTAL HEALTH CENTER, INC.
 STATEMENT OF OPERATIONS - TITLE XIX PROGRAM
 FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

	Fiscal Year Ended June 30	
	2002	2001
<u>Beginning Balance</u>	\$ -	-
Revenues Received Designated for Programs	<u>7,350,106</u>	<u>5,967,471</u>
<u>Revenues Applied:</u>		
Community Support and Related Services	5,520,744	4,592,667
Adult General Outpatient Program	333,686	208,405
Other Programs	<u>1,495,676</u>	<u>1,166,399</u>
Total Applied	<u>7,350,106</u>	<u>5,967,471</u>
<u>Ending Balance</u>	\$ <u>-</u>	<u>-</u>

See accompanying notes to financial information.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
 KENT COUNTY MENTAL HEALTH CENTER, INC.
 STATE MATCHING PROGRAM
 DETERMINATION OF OVER (UNDER) PAYMENT OF STATE MATCHING FUNDS
 FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

	Fiscal Year Ended June 30	
	<u>2002</u>	<u>2001</u>
<u>State Funds Allocated</u>		
Adult General Outpatient Services	173,613	186,227
Community Support, Residential and Acute Alternatives	<u>173,613</u>	<u>186,227</u>
	<u>347,226</u>	<u>372,454</u>
Matchable Revenues-Fiscal Years Ended June 30, 2000 and 1999	<u>463,821</u>	<u>429,461</u>
<u>Determination of Over (Under) Payment of State Funds:</u>		
State Funds Allocated (Note 2)	347,226	372,454
Deduct lesser of:		
(a) Applicable Percentage of Matchable Revenues	347,226	372,454
(b) State Funds Allocated	347,226	372,454
Maximum Support - Lessor of A or B (Note 3)	<u>347,226</u>	<u>372,454</u>
Over (Under) Payment of State Matching Funds	<u>-</u>	<u>-</u>

See accompanying notes to financial information.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

NOTES TO FINANCIAL INFORMATION

Note 1 - Significant Accounting Policies

Basis of Accounting:

The financial information is presented on the accrual basis of accounting which is in compliance with the Division of Behavioral Healthcare Service's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers. Under this basis, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Note 2 - State Funds Allocated - Exhibit D

These amounts represent the total of the matching grants encumbered by the Department of MHRH for the operation of Kent County Mental Health Center, Inc.

Note 3 - Maximum Support - Exhibit D

State funds allocated are subject to the lessor of the following:

- A. 74.862% of the matchable revenue for fiscal year ended June 30, 2000 and 86.726% of the matchable revenue for the fiscal year ended June 30, 1999.
- B. The maximum state funding as determined above cannot exceed the dollar amount originally allocated for the respective fiscal year.

Note 4 - Other Programs – Exhibits A and B

These amounts represent funding from sources other than MHRH Division of Behavioral Healthcare Services.

Note 5 – Adult General Outpatient – Investment Loss

This represents an investment loss incurred as a result of a partnership investment with Quality Care Company.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
STATE MATCHING PROGRAM
SCHEDULE OF MATCHABLE AND NONMATCHABLE REVENUES
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

	Fiscal Year Ended June 30	
	<u>2002</u>	<u>2001</u>
<u>State of Rhode Island</u>		
Adult General Outpatient Program	\$ 227,173	126,895
Community Support, Residential and Acute Alternatives	<u>723,284</u>	<u>938,491</u>
Total State Funds Allocated	950,457	1,065,386
 <u>Matchable Revenues</u>		
Local Communities	1,073,251	921,331
Contributions & Fund Raising	<u>23,805</u>	<u>23,225</u>
 Total Matchable Revenues (For Fiscal Years Ended June 30, 2004 and 2003)	1,097,056	944,556
 <u>Nonmatchable Revenues</u>		
Title XIX Program	7,350,106	5,967,471
Patient Fees	85,212	69,972
Residential Fees	81,492	77,787
Third Party Reimb.	559,395	439,457
Other Programs	1,839,256	1,540,604
Miscellaneous	<u>15,738</u>	<u>505</u>
Total NonMatchable Revenues	<u>9,931,199</u>	<u>8,095,796</u>
 Total Revenues (Exhibit A & B, Respectively)	 \$ <u><u>11,978,712</u></u>	 <u><u>10,105,738</u></u>

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
KENT COUNTY MENTAL HEALTH CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2002 AND 2001

FINDINGS AND RECOMMENDATIONS

Net Operations

Net operating results for the Center's programs for the fiscal years ended June 30, 2002 and 2001 are summarized below:

Revenue Excess (Deficiency) - Exhibits A and B

<u>Program</u>	<u>2002</u>	<u>2001</u>
Community Support, Residential, And Acute Alternatives	\$ (268,132)	\$ (225,697)
Adult General Outpatient	(332,663)	(330,061)
Other Programs	<u>457,554</u>	<u>281,987</u>
Total Revenues	\$ <u>(143,241)</u>	\$ <u>(273,771)</u>

Community Support, Residential, and Acute Alternatives

The group home staff computes the monthly rental charged to each group home resident. Our audit revealed that a group home resident was overcharged rent for eighteen months totaling in excess of \$1,000 due to a computation error. The Center subsequently reimbursed the resident in full. There is inadequate monitoring by the Center's fiscal staff to ensure that rental charges are correctly computed.

Provision 5.B appearing in Section II of the Community Support, Residential, and Acute Alternatives Contract relating to financial terms and conditions states in part:

“Resident Contribution for Room and Board Expense. It shall be a condition of admission to the residence that residents agree to the following schedule of payments:

- a. Sixty-five percent (65%) of unearned income such as SSI, GPA, etc.”

Recommendation

1. MHRH officials should request that the Center's fiscal office periodically monitor, in detail, group home rent computations.

State Matching Program (Adult General Outpatient)

It was determined that there was no over or under payment of state matching funds during the period audited. (See Exhibit D).

Matchable revenues were examined for fiscal years ended June 30, 2002 and 2001 and are summarized as follows:

	<u>2002</u>	<u>2001</u>
Local Communities	\$ 1,073,251	\$ 921,331
Contributions	19,461	10,387
Fund-Raising (net)	<u>4,344</u>	<u>12,838</u>
Total Matchable Revenues	\$ <u>1,097,056</u>	\$ <u>944,556</u>

Funds received in the fiscal years ended June 30, 2002 and 2001 will be the basis for determining state funds allocated by the Department of MHRH for the subsequent fiscal years ending June 30, 2004 and 2003, respectively.

A portion of contributions and fund raising revenue was applied by the Center to management and general expenses reducing total operating costs appearing in Exhibit A and B as follows:

	<u>2002</u>	<u>Applied</u>	<u>Exhibit A</u>
Fund Raising & Contributions	\$ 23,805	\$ (15,377)	\$8,428
	<u>2001</u>	<u>Applied</u>	<u>Exhibit B</u>
Fund Raising & Contributions	\$ 23,225	\$ (21,410)	\$1,815

Revenue Deficiencies

It is our understanding that each contract stands on its own and that any expenses in excess of the contracted amounts be absorbed by the provider.

During the period audited the following Division of Behavioral Healthcare Services contracts had revenue deficiencies:

2002 – Community Support, Residential, and Acute Alternatives	\$ (268,132)
2002 – Adult General Outpatient	\$ (332,663)
2001 – Community Support, Residential, and Acute Alternatives	\$ (225,697)
2001 – Adult General Outpatient	\$ (330,061)

Representative Payee Program

The Center program staff manages, under the policies of the Social Security Administration's Representative Payee Program, Social Security and SSI payments to approximately 50 clients.

A sampling of Representative Payee accounts, which are managed by the Center's program staff, disclosed the following:

- Some checking accounts have not been reconciled for several months.
- Cancelled checks were not available for one account.
- Numerous bank overdraft charges were incurred. The Center subsequently reimbursed the clients.

Recommendation

2. MHRH officials should request that the Center transfer the management of Representative Payee accounts to its fiscal staff.

Affiliated Corporations

The Center formed several nonprofit corporations which provide services adjunctive to the Center's programs. The affiliates share common management and Board of Directors. A listing of affiliates follows:

Kentco Holdings, Inc.

This corporation was formed to hold title to real estate for the benefit of the Center's residential, and various programs. The corporation holds title to property located at:

70 Minnesota Avenue, Warwick, R.I.
18-28 Robert Street, West Warwick, R.I.
77 West Warwick Avenue, West Warwick, R.I.
81 West Warwick Avenue, West Warwick, R.I. (as of October, 2002)

Kentco Properties, Inc.

This corporation was formed to hold title to real estate for the benefit of the Center's residential program. The corporation holds title to the following properties located at:

3525 West Shore Road, Warwick, R.I.
1315 Main Street, West Warwick, R.I.

Fund for Mental Health, Inc.

This corporation is presently dormant. It was formed several years ago for fund raising purposes.

Robert Street Realty, Corp.

This corporation was formed July 3, 2001 to build, own, manage and otherwise operate housing for elderly and/or disabled persons.